

STRATEGIC PLAN

AGENCY MISSION

We protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry.

STATUTORY AUTHORITY STATEMENT

The Office of Insurance Commissioner is created by Chapter 48.02 RCW. Subsequent chapters of Title 48 define the Commissioner's authority and responsibility for matters such as insurance company formation, capital and reserve requirements, regulatory requirements for specified lines of insurance, and company rehabilitation or liquidation.

GOAL

Protect and educate consumers.

OBJECTIVES

- Ensure compliance by agents and brokers with financial requirements of Washington insurance laws
- Prevent illegal insurance schemes from operating in the state of Washington
- Provide and maintain easy access to current, helpful, and relevant information regarding the rights of consumers as insurance purchasers

STRATEGIES

- Conduct financial examinations of Agents and Brokers for compliance with Title 48 RCW
- Investigate consumer complaints of Agents and/or Brokers

Statewide Result – Improve the health of Washington citizens

Agency Activity – Investigations and Enforcement

Performance Measure – Number of investigations and financial examinations of agents and brokers completed

- Create and maintain working relationships; and share information with all County Prosecutors, relevant federal agencies, and state insurance department enforcement personnel
- Continue criminal prosecution of illegal issuers

Statewide Result – Improve the health of Washington citizens

Agency Activity – Policy and Enforcement

Performance Measures – Number of enforcement actions and compliance plans issued against authorized insurers; Number of investigations of suspected illegal insurance entities completed

- Maintain updated insurance guides on the Internet for common insurance products in multiple languages

Statewide Result – Improve the health of Washington citizens

Agency Activity – Consumer Information and Advocacy
Health Insurance Benefits Advisors

GOAL

Promote a healthy insurance climate that meets consumer needs.

OBJECTIVES

- Maintain accreditation of the OIC by the National Association of Insurance Commissioners
- Prevent the insolvency of domestic insurers
- Reduce the time required for review of insurers' rate and form filings
- Automate agent and broker licensing through the use of web-based applications

STRATEGIES

- Maintain financial examination quality and frequency sufficient to exceed NAIC requirements
- Conduct financial examinations of all domestic insurers at least once every five years
- Review financial statements for all insurers each quarter for possible regulatory intervention
- Enforce solvency standards by conducting targeted and full scope financial analyses, financial examinations and market conduct examinations

Statewide Result – Improve the economic vitality of businesses and individuals

Agency Activity – Monitoring Insurance Company Solvency

Performance Measure – Percentage of the biennial financial examination plan completed in order to maintain the 5-year financial examination cycle of domestic insurers

- Expand the use of electronic rate and form filing systems

- Enter into agreements with other insurance regulators concerning ways to achieve greater national uniformity in regulatory requirements and product approval that maintain strong consumer protections

Statewide Result – Improve the economic vitality of businesses and individuals

Agency Activity – Regulation of Insurance Rates and Forms

Performance Measure – Average number of days required to finalize the filing review process for rate and form filings

- Develop applications to allow agent and broker license applications to be submitted via the internet and reviewed through an automated process

Statewide Result – Improve the economic vitality of businesses and individuals

Agency Activity – Agents and Brokers Licensing and Education

Performance Measure – Percentage of licensing and education filings processed within 15 days of receipt

GOAL

Measurably improve customer service, access, and satisfaction.

OBJECTIVES

- Improve public access to information and expand opportunities for electronic commerce
- Improve advocacy services for consumers

STRATEGIES

- Maintain and enhance the integrated database to support increased functionality and accuracy
- Provide disclosable insurance company and agent information via the internet

Statewide Result – Improve the economic vitality of businesses and individuals

Agency Activity – Agency Administration

Expected Results – To provide executive and administrative services in support of the agency’s mission in a professional, qualitative, and responsive manner which emphasizes efficiency and cost-effectiveness.

- Consolidate and streamline the process for receiving and answering consumer contacts

Statewide Result – Improve the health of Washington citizens

Agency Activity – Consumer Information and Advocacy

Health Insurance Benefits Advisors

Performance Measures – Consumer inquiries received and answered; Amount recovered for consumers as a result of OIC intervention

PERFORMANCE ASSESSMENT

Actual performance is on target with performance estimates. There are no material variances or issues to report.

EXTERNAL ENVIRONMENT

Insurance is a \$25 billion business in Washington

The insurance business is critical to Washington's economy and to the well-being of our state's residents. Insurance transactions add up to about \$25 billion in economic activity annually and generate more than \$400 million in state tax revenue each year that is used to fund a wide range of public services and programs.

The availability and affordability of various forms of personal and commercial lines of insurance are cyclical in nature. Life, health, auto, home, liability and other kinds of insurance are influenced by factors such as competitive market forces, the regulatory climate, inflation, investment returns, and the accuracy of predicting future claims.

The insurance market cycle and economic growth

Beginning in the latter half of 2000, Washington and the rest of the nation were affected by a "hard market" where insurance costs rose at levels above the inflation rate. In a hard market, insurers abandon less profitable lines of coverage and are more restrictive in determining what individual and group risks they are willing to cover. This negative cycle was exacerbated by historic losses generated from the events on September 11, 2001, reduced investment earnings, and corporate failures. During the past decade, there have been unusually severe, concentrated, and costly natural disasters such as hurricanes, floods, fires, and earthquakes, with significant negative impact on company reserves. The international reinsurance industry is preparing for more severe weather events as a result of climate change.

Certain types of liability insurance – particularly medical malpractice, homeowners and construction liability – were affected the most in terms of rate hikes and new underwriting restrictions. These lines of insurance not only saw sharp spikes in pricing, but fewer insurers offered coverage. Insurers who continued to write policies have been more selective about the individual risks they are willing to underwrite.

The industry has moved out of the hard market and the rate of price increases has flattened and availability of all but a few types of liability insurance has improved.

The state's economy was placed under a significant strain due to a recession which lasted most of the first half of this decade. Washington was hit harder than most other states because of a combination of factors, including the collapse of the "dot com" industry, the effects of 9/11, and massive layoffs in

the aerospace industry. In 2006, however, most experts believe that the state has moved out of the recession with slow but steady economic growth. The unemployment rate, which at one point was nearly the highest in the nation, has dropped to a record low. However, a heavy reliance on sales tax revenue for the operation of many state government programs will continue to add volatility to state revenue collection.

Overall inflation has remained remarkably low and stable for a relatively long period of time. Auto and homeowner insurance rates began to moderate in 2004, with some companies proposing rate reductions after several years of sharp increases. Many insurers used the additional revenue generated by premium increases to shore up reserves and are now in a position to focus on more competitive pricing and market share.

A future terrorist attack within the U.S., and the prolonged military engagement by the U.S. government, would have significant consequences on most sectors of the state and national economies. Even with a form of stop loss coverage through the federal government, the financial impact of a major terrorist attack on the insurance industry would still be substantial. Underwriting and pricing coverage of terrorist acts is difficult due to a lack of historical data and foreseeable risk. New attacks would create additional upward pressure on property and casualty premiums and would cause disruption to the reinsurance market.

The effects of fraud on insurance premiums

The National Insurance Crime Bureau estimates that fraudulent claims add as much as \$400 per year to the cost of consumer insurance policies. Most states have enacted programs to specifically respond to insurance fraud by organized crime rings. This has proved necessary because local police authorities lack the dedicated investigative or prosecutorial resources to attack the problem. The lack of such a program in Washington has, unfortunately, amounted to an invitation for such rings to establish a presence in our state. The Washington Legislature has taken a first step by establishing and funding an anti-fraud program in the Office of Insurance Commissioner that includes resources to coordinate efforts with state and local law enforcement officials.

The continuing crisis in health care

The health insurance market has undergone a steady deterioration over the past decade. The affordability and availability of adequate health insurance coverage has reached a crisis level and now affects millions of lives and business profits. State and local governments provide coverage for approximately 1.5 million state residents, about 21% of the population. This has placed an increasing financial burden on state and local budgets, which are ill equipped to respond.

The current health care system continues to be plagued by a medical inflation rate well above the consumer price index (CPI), low public program reimbursements for medical providers, skyrocketing pharmaceutical costs, and increasingly fragmented risk pools. The cost of treating the uninsured is paid for by those covered by health insurance and the general public. All of these factors highlight the inequity in access to health care and greater dissatisfaction with the present system by both the insured and uninsured.

Federal law and market changes

A landmark development in insurance regulation was passage of the federal Financial Services Modernization Act of 1999 (also known as the Gramm-Leach-Bliley Act or GLBA). This law dissolves traditional barriers between the banking, insurance, and securities industries. GLBA permits financial service companies to enter into a variety of new business activities. Integration of financial and insurance industries requires an unprecedented degree of cooperation among federal and state regulators, and between state regulatory agencies. The complexity of GLBA and the issues it presents require additional staff with expanded expertise.

The Internet is increasingly being used to market new and broader kinds of insurance products. The technology of the Internet provides the opportunity for unscrupulous, unauthorized persons and entities to adversely impact large numbers of consumers in a very short time. This requires regulators to significantly alter how they monitor and regulate insurance products that are marketed and sold electronically.

Insurance industry interests will continue to be divided over state-based insurance regulation versus oversight by a federal regulatory agency. Despite this division, the insurance industry and congressional allies will continue to expect greater uniformity between states in licensing and regulatory standards, and single “points of entry” for various products to gain approval. In creating uniformity among the states, the challenge facing state regulators will be to ensure that consumer protections are not weakened.

Public Perceptions of and Access to Government

Washington relies on a regressive tax structure that is heavily dependent on sales and real estate taxes to fund state government programs. Although the OIC received funding from industry assessments, the fiscal stability of funding for education and other state programs has an indirect, but significant, impact on this agency.

State government revenue shortfalls are forecast for the remainder of this decade. The resulting pressure to cut services and increase taxes creates an expectation and demand by the public for increased efficiency, effectiveness and accountability in state programs. An even greater emphasis will be placed on the OIC to effectively manage available resources and ensure that staff has the knowledge, skills and abilities to adapt to evolving technologies and improved work methods.

Access to government services and information also continues to be of utmost importance to the public. Changes to the state’s Public Disclosure Law reflect an increased appreciation of the public’s right to have information about its government. Public access to information and services is a priority for the OIC, and several major initiatives have already been undertaken to improve this access, including making more information available via the Internet and expanding electronic commerce. The OIC will continue to build upon earlier efforts, with emphasis on enhancing its e-tax program, improving its agency-wide records management program, and developing greater capacity for staff to obtain and use reliable data to anticipate and respond to business related questions.

Activity Links and Major Partners

Department of Financial Institutions (DFI):

The OIC has established regular ties with the DFI and shares information relating to investigations and enforcement activities. The agencies recently successfully prosecuted a joint disciplinary action against affiliated corporations involving allegations of misconduct that violated both securities and insurance laws. The agencies also are preparing to jointly develop a consumer guide for equity-indexed annuities. OIC investigators have conducted training for DFI securities staff on annuities and other insurance products. Conferences in which staff of almost all of the programs of both agencies are represented and participate are held on an annual basis. They serve as a mechanism for the exchange of information about issues common to both agencies and usually are all-day events.

Office of the Attorney General (AGO):

The OIC regularly shares information about investigations, and enforcement activities with the AGO. The agencies recently cooperated in a joint investigation with the Washington State Bar Association dealing with the solicitation of living trusts. The OIC and the AGO coordinate fact-finding efforts when allegations concerning violations of laws within the enforcement authority of both agencies is presented to either agency. For instance, both agencies cooperate in investigating alleged misconduct concerning the sale of living trusts or reverse mortgages where a licensed insurance agent is involved.

Department of Licensing (DOL)

The OIC also shares information with the DOL about investigations and enforcement activities concerning persons who hold bail bond licenses. The OIC was recently invited to provide advice to the DOL in connection with the drafting of rules intended to apply to bail bond recovery agents. The OIC has provided training for DOL licensed bail bond agents relating to the laws and rules pertaining to surety bonds.

National Association of Insurance Commissioners (NAIC):

We have partnered with the NAIC and other state insurance departments on cooperative and collaborative examinations (both financial and market conduct) to share work load on exams.

The NAIC is a national organization whose membership comprises the chief insurance regulators of the 50 states, several U.S. territories, and the District of Columbia.

Through the NAIC, insurance regulators work together to address issues that are common to many jurisdictions. The NAIC also provides a mechanism for representing state insurance regulators' interests to the insurance industry, consumer groups, and the U.S. Congress. Through regular meetings of NAIC committees, task forces, and working groups, states develop common approaches to insurance regulation, including model laws and regulations, which can serve as guides to state legislators and insurance regulators. By participating in the NAIC, the Commissioner and OIC staff work toward multi-state requirements and procedures that protect insurance consumers and improve

the efficiency of insurance regulation.

OIC Rates and Forms Division staff participates in the NAIC Speed-to-Market Task Force and its working groups addressing operational efficiencies and the interstate compact. Both areas are critical to the goals of the Rates and Forms Division. If Washington, along with other states, can implement more efficient processes for review of rates and forms, OIC will be able to review and approve rate and form filings more quickly. If the national standards for products subject to the interstate compact are high, OIC will be able to continue to protect consumers from low-quality products.

Association of Insurance Compliance Professionals (AICP):

The AICP is a national organization whose membership is made up primarily of insurance industry employees who have regulatory compliance as a major part of their employment duties. Many state regulators are members of AICP as well.

The AICP views education of their members in regulatory matters as a major part of their function. Education is achieved through regional and national meetings, newsletters, website discussion of issues, professional educational certification, encouragement to seek further education, and direct contact between industry compliance professionals and regulators. This emphasis on education is extremely important since there are hundreds of compliance professionals, and normal employment turnover creates a need for a continuing educational program.

This is an ideal organization for the Rates and Forms Division to be involved with to improve the quality of rate and form filings submitted by the insurance industry. A major goal of the OIC Rates and Forms Division is to reduce the time it takes for filings to be approved, and the goal will be easier to accomplish if the filings submitted are of improved quality. The partnership with AICP provides a method to get information about Washington filing requirements directly to the individuals who are responsible for the filing function. The AICP resources offer an avenue for compliance education that is much more far-reaching and cost effective than any that could be achieved by OIC alone.

Data Simplification Work Group:

The Data Simplification Work Group consists of four state agencies (Office of Insurance Commissioner, Health Care Authority, Medical Assistance Administration, and Department of Health), the Association of Washington Health Plans, several health carriers and Legislative staff. The work group's goal is to simplify and standardize data required to be reported to the state for regulatory review. The work group is part of a larger group entitled "Administration Simplification." The purpose of the larger group is to reach an agreement among stakeholders so that simplification may be achieved either without going through the legislative process or with an agreement to make the process easier.

Memorandums of Understanding:

As part of this endeavor and when appropriate, the agency will enter into Memorandums of Understanding and other written statements of agreed upon procedures with other agencies in order

to share enforcement information and minimize violations of law and derivative harm.

We are developing working relationships and agreed upon procedures with all county prosecutors, relevant federal and state regulatory and enforcement agencies, and state insurance department enforcement personnel in order to share information and coordinate insurance enforcement activities.

The agency currently has written agreements with the Washington Department of Financial Institutions, the Washington State Board of Accountancy, the Washington State Department of Revenue, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Federal Office of Thrift Supervision, and the Federal Reserve. The agency also has an agreement for information sharing and identification of perpetrators with the National White Collar Crime Center and the Washington Department of Licensing.

SHIBA (Statewide Health Insurance Benefits Advisors) HelpLine Community Partners:

In order to effectively reach all consumers in Washington, the SHIBA HelpLine is dependent upon partnering with many organizations. In some cases, these organizations provide entry into their communities and in others, we train them to disseminate the information for us. Major SHIBA local and statewide partners include:

- US Dept. of Health & Human Services
- Social Security Administration (SSA)
- Washington Department of Social and Health Services
- Community Action Programs/Councils (CAPs)
- Washington Health Foundation, Community Health Access Program (CHAP)
- Washington State Pharmacy Association
- Retired Senior and Volunteer Programs (RSVP)
- Washington Area Agencies on Aging, Senior Information and Assistance Programs
- Asian Pacific American Resource Network (APARN)
- Washington Coalition on Medicaid Outreach (WCOMO)
- Washington Protection and Advocacy Services (WAPAS)
- Alliance for Multicultural Health (AMCH)
- Chinese Information Service Center, Korean Women's Association, Consejo and other local non-profit organizations serving diverse communities
- Central Washington University
- Eastern Washington University
- Western Washington University
- CHOICE Regional Health Networks
- Washington State Healthcare Authority
- Washington State Health Insurance Pool (WSHIP) Board
- Washington Community Migrant Health Clinics (WACMHC)

TRENDS IN CUSTOMER CHARACTERISTICS

Changes in health insurance

At the turn of the 21st century, many health care consumers in Washington received their coverage through managed care. Under managed care, insurers become directly involved in the decisions about medical treatment. Doctors and hospitals assume a share of the financial risk for treating the patient, and consumers are subject to complex benefit plan requirements and limits on their choice of providers.

In 2000, the Legislature made significant changes in the law having wide-reaching impacts on consumers in the individual market. The changes have had an effect on many aspects of the consumer's experience, especially with guaranteed renewability. Many consumers lost their coverage as a result of these changes and state budget cuts, and they will continue to need assistance as they try to locate and understand new coverage options.

More people are uninsured and job-based insurance is squeezed

The number of Washington residents no longer able to afford health insurance continues to increase, placing a greater financial burden on the state. More than 600,000 men, women and children are uninsured in Washington – one out of every 10 people. Those who are insured have become increasingly dissatisfied with the high cost of health care and with the effects of industry cost reduction efforts (such as managed care) on quality and access to care. Over 80% of all labor disputes in the nation are currently attributed to health insurance issues.

The dissatisfaction is shared by medical providers who are experiencing personal and business income cuts combined with costly medical malpractice insurance premiums, and by employers who can't afford traditional benefit-rich health plans for their workers. Responsibility is shifting to employees for a greater share of the cost through higher deductible plans, higher co-payments and the substitution of "health savings accounts" for insurance policies.

In the absence of profound reforms, the insurance market will continue to lose healthier segments of the population because of costs, and premiums will continue to increase through adverse selection. Those who use benefits the most will be the most likely to retain coverage.

Safety nets available to the uninsured through programs that rely on state revenue, such as the Basic Health Plan and Medicaid, will continue to deteriorate for the short and mid-term as the state's economy slowly recovers from recession. The loss of state subsidies has added tens of thousands more people to the uninsured ranks. Unintended consequences will result, such as cost shifting and an increasing financial burden on the rest of the system.

Regulatory challenges

Although Commissioner Kreidler denied an application by Premera Blue Cross to convert to for-profit status in 2004, the national trend toward this kind of conversion will continue to be a factor. As national carriers emerge and grow in size, they will create additional pressure on remaining nonprofit organizations to convert in order to compete and maintain or improve market share. The existence of several national health carriers increases the potential for the acquisition of domestic insurers and adds pressure to further reduce competition and choice to consumers. Recently, United Health Care Group acquired PacifiCare Health Systems, the parent company of PacifiCare of Washington, one of Washington State's five largest health plans, although the national trend of acquisition and conversion seems to be slowing.

The exposure of accounting scandals and unlawful business practices involving Fortune 500 corporations has continued throughout the decade and underscores the need for the OIC to closely examine the financial and market conduct records of insurance companies, agents and brokers based in the state. The OIC must ensure that companies do not become insolvent or reduce state revenue as a result of payments from one or both of the state Guaranty Funds.

For a number of years, regulation of insurer marketplace activity has placed heavy emphasis on periodic market conduct examinations. Those examinations are resource intensive, costly to insurers, and not particularly effective in the early detection and correction of marketplace issues. In response to industry concerns, and in cooperation with industry, NAIC has developed and continues to refine a system of market conduct surveillance focusing on market analysis rather than market conduct examinations. The new system provides a number of market analysis tools and corrective processes. OIC believes the new system will, in the long run, be more efficient and provide more timely protection for consumers. OIC plans to implement the market conduct surveillance system over a period of several years.

Meanwhile, the tight health insurance market is ripe for scam artists. Illegal health insurance plans are surfacing around the country, preying on vulnerable people who are struggling to find adequate and affordable health care. Early education to alert consumers of phony insurance plans is vital since there is little recourse after consumers become victims.

Also, as more insurance transactions take place over the Internet without the benefit of advice from an agent or broker, consumers will require greater assistance and access to information from the OIC about both the products offered and the companies selling those products.

Carriers offering life and annuity policies will continue to press for a national system of review for rate and form filings. These carriers also will advocate for requirements that each state accept the submission of their filings through the Internet. Similar pressure will come from representatives of insurance agents and brokers for a form of national (rather than state-by-state) licensing. In the absence of nationwide filings or licensing, states will be expected to improve processes and reduce delays.

Financial Health Assessment

The agency does not foresee any trends in revenue sources, fund balance changes, or cost pressures that will negatively affect the agency's financial stability. The agency's operating costs are funded by a Regulatory Operating Fee that is paid in June of each year by Insurers, Health Care Service Contractors (HCSCs), and Health Maintenance Organizations (HMOs). The amounts collected are deposited in a dedicated fund to be used to pay the operating costs for the following fiscal year. This has been, and is expected to continue to be, a very stable source of revenue.

Technology Strategies

As a direct outcome of the 2005-2007 Strategic Plan, OIC is on schedule to complete the replacement of its legacy HP3000 computing system by June of 2007. The agency's efforts to migrate the agency's core computing needs to a new Microsoft-based platform and integrated database has positioned the agency to further extend the agency's capacity to provide "self-service" online services to the public.

Public access to information and services is a priority for the OIC, and several major initiatives have already been undertaken to improve this access, including making more information available via the Internet and enhancing electronic commerce. The OIC will continue to build upon earlier efforts, with emphasis on accessing insurance Rates and Form filings, enhancing its e-tax program, processing insurance agent and broker licenses on-line, improving its agency-wide records management program, and developing greater capacity for staff to obtain and use reliable data to anticipate and respond to business related questions.

The Effects of Civil Service Reform

With the passage of Personnel System Reform Act of 2002 OIC has experienced significant changes with the implementation of Civil Service Reform, the Collective Bargaining Agreement, and the Human Resource Management System (HRMS).

With implementation of Civil Service Reform, we have developed new policies for our non-represented employees and for our represented employees in those areas where the Collective Bargaining Agreement (CBA) is silent. Due to the ongoing changes within our agency we have new managers and supervisors who need to be trained on the current CBA, on our policies, and on the Washington Administrative Code 357 (WAC) on managing employees. The managers and supervisors who have been with the agency for some time need on-going training specifically in the area of the CBA which is renegotiated every two years.

With the implementation of HRMS, Release 1, we have ongoing training for HR staff and managers on the tools of the system - to pay employees and to track time and attendance for pay purposes. Staff work is more detailed and the expectation is 100% accuracy. HR and Payroll staff needs to ensure that attendance keepers, supervisors and managers have the information that they need to provide accurate data so that employees can be paid accurately and on time.

Now that HRMS Release 1 has reached the final phase of implementation for the whole state,

Release 2 for the HRMS is expected to be implemented on September 30, 2006. This requires additional staff time for training of this new tool for recruitment purposes. As soon as training for Release 1 is completed, HR staff has to start training for Release 2, E-recruiting tool. Recruitment is a very important effort for OIC and we have difficulty filling most of our core positions. HR staff time is stretched with all of the training time for these new releases.

In addition we have agency initiatives in the area of Professional Development which we have to prepare a program to help our managers and supervisors to be ready to manage in this new environment.

Employee Competencies in a Rapidly Changing World

More than ever, employee competencies are the basis of an organization's success. The OIC is no exception. Staff training and development play crucial roles in helping the organization to keep up with the breathtaking pace of technological changes, greater demands for worker accountability and productivity, and pressure to do more with less. The OIC recognizes the need to have a well trained workforce to meet these challenges, and the organization will emphasize the strengthening of its training and development program during the 2007-09 biennium.

Capital Facility Assessment

In June of 2003, the Office of Insurance Commissioner completed a study that examined the feasibility of constructing a new Executive Office Building on the Capitol Campus. The study determined that a new building for statewide elected officials and their staff would make sense. Since the OIC's review was done, the Legislature has provided funding for the Department of General Administration to undertake a pre-design of an Executive Office Building. The Legislature specified that the building would house statewide elected officials, including the Insurance Commissioner. The pre-design study is currently underway. The Office of Insurance Commissioner has played an active role in providing data and other input to SRG Partners, the architectural firm hired by the Department of General Administration to conduct the pre-design work.

RISKS, OBSTACLES, AND OPPORTUNITIES

The trend toward sharply increased prices for homeowners and auto insurance coverage prevalent from 2001 through 2003 slowed and even reversed for some products as we emerged from hard market conditions. Insurers are becoming more reliant on technology and expert systems to automate their underwriting and claims settlement practices. Insurance industry developments such as credit scoring and the use of CLUE (Comprehensive Loss Underwriting Exchange) reports have led to marketing, underwriting and pricing changes in the personal lines insurance market and public debate on what kinds of personal information should be used for those purposes. While these changes may not cause a change in the total premium collections, some individuals pay less while others pay much more.

The impact of climate change on property and casualty insurance lines continues to evolve. The reinsurance industry has made this issue a priority as the industry's combined ratio climbed to 129.4

in 2005 up from 106.2 in 2004. If climate change is contributing to continued large catastrophe years such as 2005, it may affect the ability of the reinsurance industry to attract capital due to reduced return on investment causing decreased reinsurance capacity available for primary property and casualty insurance carriers at likely higher rates. This, coupled with the continued expansion and increased property values in catastrophe prone areas, may cause the property and casualty market to harden, or even contract, if carriers are unwilling to accept new risk or renew some existing risk. This could result in higher prices for consumers or even compromise the ability of consumers to obtain property coverage. To address this potential problem, the Office of Insurance Commissioner must continue to monitor climate change and its affect on the market, as well as actively participate in the NAIC task force on climate change to protect consumers.

The creation of an anti-fraud program within the Office of Insurance Commissioner with funding for dedicated resources within other state and local law enforcement agencies provides an opportunity to attack costs associated with organized crime rings involved in insurance fraud. Although Washington ranked 18th in the nation in 2005 for premium volume, our state was ranked 11th for suspected insurance fraud. The costs associated with this kind of criminal activity add as much as \$400 per year to the average consumer's insurance bill. Significant savings for consumers can be achieved with an effective fraud investigation and prosecution program.

With advances in Internet technology, it is projected that within the next decade, 80 percent of personal lines of insurance and 60 percent of small commercial lines of insurance in the U.S. will be purchased online. E-commerce produces a new set of variables for consumers. Consumers will be more likely to misinterpret benefit offerings and will be more vulnerable to questionable sales practices. The OIC must develop new strategies and practices for regulating and policing these on-line insurance offerings.

The potential for terrorist attacks will continue to create uncertainty and a degree of volatility in the reinsurance market and certain lines of property and casualty insurance. Insurers depend upon the predictability of risk to particular exposures to establish appropriate premium rates. Future attacks within the U.S. would add significantly to that volatility. Rate filings by insurers will include assumptions that may be speculative and require a high degree of scrutiny.

The health insurance crisis will continue to worsen. An aging population combined with anticipated federal and state cuts to reimbursement formulas for providers will put additional stress on the system. Consumers will need more help to find affordable coverage and to challenge coverage decisions they believe to be unfair. The total cost for U.S. health care far exceeds that of any other industrialized nation in the world, yet the health of the U.S. population fails to positively reflect that degree of investment.

High health insurance costs create opportunities for illegal offerings to individuals and employers by scam artists that purport to avoid state or federal regulation. Additional resources will need to be directed to education and enforcement programs to prevent or halt the activities of these illegal entities.

The lack of significant reform efforts by the federal government creates an opportunity for creative solutions to the health insurance crisis at the state level. The OIC will continue to devote energy and

resources toward achieving consensus on fundamental changes in the system to expand risk pools, increase competition, help control health care costs, and substantially increase the number of consumers with health insurance coverage.

As a consequence of the gradual consolidation of the banking and insurance industries authorized by Congress in 1999, we expect life and annuity products will become increasingly complex and will require increased technical expertise and coordination with the Washington State Department of Financial Institutions, the U.S. Department of the Treasury, the Securities and Exchange Commission and the Federal Reserve.

Pressure will continue to build for uniformity in insurance regulatory requirements between the various states and for the ability to file insurance products that are unaffected by local market conditions through a national system. Congress will continue to re-examine the role that the federal government should play in insurance regulation. Some insurers and their trade organizations can be expected to pursue national standards for products that would reduce the current consumer protection standards at the state level in Washington and most of the larger states.